

Central Intelligence Agency



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DIRECTORATE OF INTELLIGENCE

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Thailand: Lull in the Furor Over Devaluation [REDACTED]

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Summary

Prime Minister Prem has adroitly defused political and military opposition to the unexpected 17 percent currency devaluation implemented on 5 November. We believe his deft handling of the turmoil has enhanced his political position to the detriment of Armed Forces Commander General Athit--Prem's chief political rival. But Prem's government will probably come under new attacks, especially from Athit, in the next few months over complementary economic austerity measures undertaken to reinforce the devaluation. [REDACTED]

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Prem's Bold Move

Finance Minister Sommai's announcement that the Thai currency would be devalued from 23 to 27 baht per US dollar surprised both domestic and international financial circles, [REDACTED] For over a year, Prem had rejected the advice of World Bank and IMF officials and leading Thai economists to devalue in the face of a growing foreign trade deficit, which reached a record \$3.9 billion in 1983.* The Prime Minister's reluctance apparently stemmed from concern that the

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*The devaluation is directed at encouraging exports and discouraging imports. Although the baht was officially tied to a basket of foreign currencies in 1981, in practice it had been firmly pegged to the US dollar. The continuing strength of the US dollar had contributed to an overvalued baht, meaning that the exchange rate encouraged imports and discouraged exports. [REDACTED]

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domestic inflationary impact of a devaluation would generate political unrest. His apprehension led the government late last year to take the less drastic step of imposing credit restrictions to slow burgeoning imports. [REDACTED]

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By this summer, however, Prem's economic advisers, especially Sommai, had convinced him that a currency adjustment was necessary to reverse the slowdown in export earnings. According to press reports, they also argued that devaluation was necessary to maintain Thailand's good international credit rating--essential for continued foreign loans to finance economic development projects and planned military purchases. [REDACTED]

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Concerned that premature disclosure of the devaluation would generate a run on Thailand's foreign exchange reserves and allow time for challenges from the political opposition, the government took extreme care in its planning. [REDACTED]

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[REDACTED] Since the devaluation, let alone its size, was not anticipated, many prominent businessmen and politicians suffered heavy financial losses. [REDACTED] major Thai commercial banks received no warning--as they had before the 1981 devaluation--and may have also incurred large losses. [REDACTED]

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The Government Closes Ranks

The devaluation announcement provoked immediate, angry protests from the military establishment, opposition politicians, and organized labor. (See Appendix) Prem, however, moved skillfully to deflect opposition by winning the support of key officials and the monarchy. [REDACTED]

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Prominent Thai economists immediately endorsed the devaluation and the increased flexibility in exchange rate policy it promises, pointing to the long-term benefits it would have on Thailand's trade performance. Snoh Unakul, a distinguished economist and the country's chief planner, has publicly supported the government's move. Social Action Party leader Khukrit Pramot, a mainstay of Prem's governing coalition, strongly defended the government's decision on television. [REDACTED]

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Some of Prem's cabinet ministers, however, were less supportive and the weekly cabinet meeting following the devaluation was heated. According to press reports, while the majority of the ministers voiced concern that the measure would increase inflation and unemployment, the favorable response from both domestic and international financial circles quelled most of the criticism. At a press conference after the cabinet meeting, ministers representing the four coalition parties supported the government's decision. [REDACTED]

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Promises of government efforts to cushion negative effects of the devaluation have also bolstered Prem's standing. Recently imposed tax surcharges on all imported products--except some luxury items--were lifted. The government also announced it would increase surveillance over the prices of more than 100 general consumption items to preclude profiteering and excessive inflation. The price of imported oil, a politically-sensitive commodity, would be kept at its predevaluation level, supported by government subsidies. In response to labor's demands, the government promised to review its September decision to freeze the minimum wage through January. The government also said it was willing to consider, on a case-by-case basis, remedies for business losses attributable to the devaluation. [REDACTED]

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Prem has also addressed one of Athit's major grievances--the adverse effect of the devaluation on military spending plans. The military was offered about \$110 million in foreign currency to offset price increases resulting from the devaluation. [REDACTED]

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Athit's Predicament

With Prem retaining the support of the palace, cabinet, and leading technocrats, we believe Athit had little choice but to retreat, as he did on 11 November when he announced the withdrawal of his demands for a cabinet shuffle and a return to the predevaluation exchange rate. [REDACTED]

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[REDACTED] earlier that day the King had sent word to Athit that the government's decision to devalue the baht was correct and that the palace had approved the measure in advance. Moreover, the King insisted that the political dispute between the Prime Minister and Athit be settled quickly. [REDACTED]

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In addition, Athit's support in the military was uncertain. His emotional outbursts and thinly veiled threats were widely criticized, especially in the junior and middle ranks of the Army. Senior military senators resented Athit's virtual order for them to sign a petition circulated by the opposition Thai Nation Party (TNP) for a special session of Parliament. Moreover, four of the five generals who had signed the letter to Prem requesting a cabinet shuffle withdrew their opposition the next day and affirmed their loyalty to him. [REDACTED]

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The TNP campaign to reopen Parliament foundered without Athit's backing and labor leaders who approached Athit on 12 November also found him unwilling to exploit the threatened railway strike. With most railway workers already unhappy with the politicization of their demands for backpay and little apparent support from the public, the strike was largely unsuccessful. Government and union negotiators quickly reached an agreement under which the government was given 45 days to arrange the payment of back wages. [REDACTED]

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The Current Power Balance

Prem has successfully weathered the political fallout from the devaluation for now. Moreover, the Prime Minister's deft handling of the situation has enhanced his leadership image and has done much to refute his reputation for indecisiveness. At the same time, the US Embassy reports that Athit's confrontational tactics--while possibly appealing to workers who feared the effects of the devaluation--alienated the educated upper and middle classes who viewed his televised outburst as a temper tantrum. In our view, this alienation, which extends to some top military leaders, has irrevocably damaged Athit's chances for succeeding Prem as prime minister. Some politicians and press editorials have already called on Prem, in his capacity as Defense Minister, to investigate Athit's interference in government policy to determine if he acted outside of military bounds, but so far we see no evidence that Prem is prepared to move in this direction. [REDACTED]

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Looking Further Ahead

Prem's political problems in connection with the devaluation are far from over, however. The US Embassy reports that Bangkok in the next few months will attempt to implement a number of potentially controversial economic measures which Thai technocrats maintain are needed to allow the devaluation to work. We believe Prem--buoyed by his recent political successes--is willing to press for many of these reforms. In late November, a 10 percent across-the-board cut in government expenditures was imposed. This measure, along with an earlier reduction of \$700 million in the ceiling on government-guaranteed foreign loans for 1985, will make it difficult for the government to keep its promises to military and labor leaders to compensate for the inflationary effects of the devaluation. Continued budget austerity, moreover, may force Prem to reexamine his promise to continue subsidizing oil prices. And other measures to reduce the budget deficit, especially higher taxes, will probably be considered in the next few months. [REDACTED]

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These austerity measures will almost certainly provoke renewed attacks on the government by the TNP, including efforts during the next scheduled session of Parliament in April to force a vote of no confidence in the government's economic policy. Despite the cabinet's public show of unity, some ministers have continued to criticize aspects of the devaluation. Industry Minister Op, for example, has voiced concern that the devaluation would increase production costs for domestic industries, thus damaging the international competitiveness of Thai products. [REDACTED]

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Although Athit has come out as the clear loser in the devaluation controversy, he will probably seek new opportunities to challenge the Prem government. Widespread public dissatisfaction--some of which may be encouraged by the military--

with rising prices and budget austerity measures will provide the most likely avenue. Prem's prospects for continuing to ride out a difficult period of adjustment rest largely on his ability to convince the public that the difficulties are only temporary and are necessary for longer term economic stability. [REDACTED]

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Appendix
The Government Under Fire From...

...The Military

General Athit moved quickly to criticize the devaluation in an attempt to enhance his position as the leading contender to succeed Prem, whose term as prime minister expires in 1987. Athit had been aware of high-level discussions concerning a possible devaluation and had made known his opposition. But he was particularly infuriated that the announcement was made while he was in the United States, [REDACTED]

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In an emotional television address upon his return to Thailand on 10 November, Athit delivered what was in effect an ultimatum calling for revocation of the devaluation and a cabinet shuffle. He strongly denounced the impact of the devaluation on military spending plans, including the purchase of US equipment, and warned that the military could not be counted on to prop up the government in the face of any unrest caused by the devaluation. In another effort to intimidate the government, Athit ordered several senior military officers to send a letter to Prem asking for a cabinet shuffle to ease tensions and avoid a worse crisis. Athit also held meetings with high-ranking army officers and with Bangkok-based military officers and police. According to press reports, Athit reiterated his opposition to the devaluation and asked his subordinates to stand ready to take orders, giving rise to coup rumors.* [REDACTED]

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...The Political Opposition

The opposition TNP, which has been maneuvering for almost two years to gain a position in the government, also went immediately on the attack.** Party leaders called for a Parliamentary debate on the issue and mounted a highly publicized drive to gather the signatures necessary to convene a special session. Initial indications were that sufficient signatures

*Athit may also have been motivated by the "loss of face" he incurred with three wealthy business associates who lost money because Athit had been unable to warn them about the impending devaluation. Moreover, if rumors that the general has been slowly building up a war chest to finance future political campaigns are true, he too may have lost large sums. [REDACTED]

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could probably be mustered, as Athit's televised attack on the government gave wider acceptance to the proposal. A successful reconvening of Parliament also would have provided opposition elements opportunities to raise other difficult issues for the Prem government. In particular Athit's supporters probably hoped to reintroduce controversial constitutional amendments that would allow active duty military officers to hold cabinet posts. The passage of these amendments would open the door for Athit to serve in the cabinet as defense or interior minister, providing him with a springboard from which to further his political ambitions.* [REDACTED]

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...Organized Labor

Labor leaders--who have been quiescent in recent years--threatened action if their demands for wage adjustments to offset the anticipated inflationary effects of the devaluation were not met. On 8 November railway workers began walking off their jobs in preparation for a nationwide strike the following day. Although the strike was originally planned as a means of gaining backpay owed by the government, the timing of the walkout appears to have been moved up in reaction to the devaluation. In a special meeting with railwaymen, one union leader told the workers that the strike was necessary because the devaluation would reduce the buying power of their wages. [REDACTED]

[REDACTED]

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*Twice previously, Parliament has failed to pass such amendments, and each time political tensions have escalated. [REDACTED]

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